FIRST CALGARY PETROLEUMS LTD.

2005 Annual Report

The Annual Meeting of Shareholders will take place on Thursday, May 11, 2006 at 11:00 a.m. in the Kensington Room at the Marriott Hotel, 110 - 9 Avenue SE, Calgary, Alberta. All shareholders are welcome to attend. If unable to attend, shareholders are encouraged to fill out the form of proxy and return it to Computershare.

FCP CORPORATE PROFILE

First Calgary Petroleums Ltd. is an independent oil and gas company actively engaged in exploration and development activities in Algeria.

Common shares of the Company trade on the Toronto Stock Exchange under the symbol FCP and on the AIM market of the London Stock Exchange under the symbol FPL.

Note: Throughout this annual report, $ refers to the U.S. dollar and C$ refers to the Canadian dollar.

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PRESIDENT'S REPORT TO SHAREHOLDERS

The decision was made in mid-2005 to commence a new phase in the Company's development, transforming FCP from a pure exploration company into an exploration and production company, initially focusing on the commercialisation of the MLE reserves on Ledjmet Block 405b. Excellent progress has been made to date in this regard, as well as with the drill-bit, as the Company embarks on a further period of intense drilling and testing operations.

STRATEGY

In late 2004 and the first half of 2005, FCP undertook an evaluation of its strategic alternatives to determine the best way of maximizing shareholder value following its earlier exploration successes in Algeria. A corporate sales process was undertaken with the support of financial advisors; however no acceptable commitments were received from interested third-parties and the Board determined that the best way forward was to continue to explore, appraise and develop its interests in the country.

Accordingly the strategy of the Company incorporates two principal initiatives:

- commercialise Block 405b with a staged development plan initially based on the MLE area of the Block; and
- increase proved and probable reserves through a programme of exploration, appraisal drilling and completion activities.

In addition, looking at the longer term, FCP will seek to deploy its existing exploration skills, knowledge and relationships to add value to its asset base, such as by seeking other exploration opportunities in Algeria and in the region.

OPERATIONAL PROGRESS

The Company has commenced a seven well drilling programme that, in conjunction with a completion programme of recently drilled wells, will have the goal of significantly increasing the gross proved and probable reserves of approximately 4 trillion cubic feet equivalent as established by independent engineers DeGolyer and MacNaughton. The first well of the new drilling programme, LES-3, has been logged and cased and is currently being production tested with very encouraging results to date. The drilling rig has moved onto the next location, LEW-2. Two additional rigs are expected to arrive on Block 405b and commence drilling during April.

COMMERCIALISATION

The commercialisation of the MLE field involves approval by the Algerian authorities of the Final Discovery Report already submitted, leading to the eventual approval of a development. A gas sale contract for dry gas will be required, and discussions with Sonatrach on transportation and marketing, amongst other matters, are now underway. In tandem, further engineering work will be undertaken ahead of the award of an engineering, procurement and construction (EPC) contract to a major upstream services company for the development. FCP is targeting MLE development approval by the authorities – the declaration of commerciality – in the third quarter of 2006, leading to an EPC contract award in the first half of 2007 and first production in 2009.

FINANCE

The Company had working capital of $92.9 million at the end of 2005 – sufficient to fund the current drilling programme. As stated in the 2005 quarterly reports to shareholders, beyond the current planned expenditures and obligations, FCP will require additional capital to finance future capital spending and operations. Financing alternatives are currently being investigated to enable the Company to proceed to the development phase.

MANAGEMENT

To progress FCP from a pure exploration company to a full cycle exploration and production company requires the strengthening of management and staff. To this effect, FCP is pleased to report the new additions effective January of this year.

Chief Operating Officer, Mr. Shane O'Leary, joins FCP with prior experience with Encana, BP and Amoco. Mr. O'Leary has focused the majority of his career in the international arena and brings valued leadership to the commercialisation and project management processes.

Chief Financial Officer, Mr. John van der Welle, joins the FCP Board with prior experience with Premier Oil, Hardy Oil and Gas, and Enterprise Oil; all UK based international exploration and production companies. Mr. van der Welle has considerable experience in business development and upstream financing and will be based in the UK.

London: Mr. van der Welle has been joined in London by Mr. Martin Layzell, formerly Vice President, Exploration and now Senior Vice President and Algeria Country Manager. As well, it is expected that additional professional staff will be located in London, primarily involved in the commercialisation process.

Calgary Staff: Mr. Roger Whittaker has assumed the position of Vice President, Exploration and FCP is actively recruiting exploration, development and support staff to continue the technical work on the projects in Calgary.

OPERATIONAL UPDATES

As stated, the Company is entering a period of increased operational activity with three drilling rigs active from next month, and with multiple testing and fraccing of wells as part of the ongoing testing programme. This will generate considerable amounts of new data to be interpreted. It is understood that shareholders and the market are interested in receiving regular updates on progress. In addition to our quarterly and annual reports, periodic press releases on operational matters will be made in accordance with stock exchange disclosure rules. However, due to the complexity of the operational programme, and the need to properly interpret and understand the significance of drilling and testing data, individual well results will normally only be released following completion of all drilling, fraccing and testing operations on the well.

SUMMARY

FCP has entered 2006 with renewed energy. The strategy is straightforward. The Company has discovered reserves which are recognized to be world class in size. The focus now is to turn FCP into a full cycle exploration and production company in order to maximize shareholder value. We are pleased and excited with the calibre of people we are recruiting to assist in the growth of the Company. We believe 2006 is going to be a year of great progress.

On behalf of the Board of Directors

Richard G. Anderson, President & Chief Executive Officer

March 20, 2006

EXECUTIVE TEAM

Richard G. Anderson
President &
Chief Executive Officer

Martin G.J. Layzell
Senior Vice President &
Algeria Country Manager

John van der Welle
Vice President, Finance &
Chief Financial Officer

Shane O'Leary
Chief Operating Officer

J. Garry Worth
Vice President,
Business Development

Roger D. Whittaker
Vice President, Exploration

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The Company has discovered reserves which are recognized to be world class in size.

The focus now is to turn FCP into a full cycle exploration and production company in order to maximize shareholder value.

OPERATIONS REVIEW

2005 saw continued activity on Blocks 405b and 406a in the Berkine Basin onshore Algeria.

MENZEL LEDJMET BLOCK 405B

(Figure 5 on page 9)

To date, FCP has drilled 12 wells on Block 405b with a 100 percent success rate.

During the year, extensive geological studies were conducted which assimilated the considerable amount of technical data acquired during the drilling programmes of the previous two years. These included examinations of the sedimentology, reservoir modelling and seismic attributes analysis. This provided a detailed geological picture of the prolific and extensive reservoirs of Block 405b.

Drilling activity on Block 405b during 2005 was minimal, as the rig was utilized on Block 406a. However, site preparation and road construction work continued throughout the year. To date, FCP has built 105 km of access road to facilitate drilling operations. The LES-3 well commenced drilling in November 2005 and continued into early 2006. The rig then moved across to LEW-2, which is currently drilling, and which is a step-out to the LEW-1 discovery.

In addition to the drilling of new wells, completions and testing operations have continued steadily since the fourth quarter of 2005. This activity has included testing operations on the LES-2 and -3 appraisal wells, the MLE-5 and -6 appraisal wells, and on the LEW-1 and LEC-1 discoveries. Hydraulic fracturing of tighter zones has also been done on four wells (MLE-6, LEW-1, MZLN-1 and MZLS-1). The programme is still in its early stages but some encouraging results have been seen on certain wells. On the basis of these results, the techniques being applied will be modified for future operations. The data arising from all this activity continues to be analysed and incorporated into the overall geological model.

RHOURDE YACOUB BLOCK 406A

(Figure 4 on page 9)

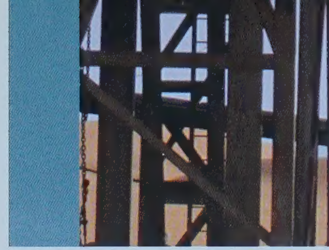
The overall operational activity level on Block 406a in 2005 was significant. The 610 km^2 3D seismic programme started in 2004 was completed in January 2005. This survey focused on the south-eastern part of the Block, in the area of the ZCH-1 gas and condensate discovery which was drilled and tested in 2004. The interpretation of the seismic survey identified two suitable exploration locations: ZCHW-1 and RTN-1. These wells represented the final two commitment wells required to be drilled under the terms of the Rhourde Yacoub joint venture agreement.

The ZCHW-1 exploration well commenced drilling in April 2005 and reached total depth in early June. Initial review of the petrophysical logs indicated that several potential pay zones had been encountered but due to mechanical problems during the cementing of the liner in this wellbore, the well was abandoned without testing.

RTN-1 was the final commitment well on Block 406a and was drilled in late summer 2005. No appreciable hydrocarbon shows were seen on logs and the well was abandoned in September 2005.

With the end of the exploration period approaching and all commitments completed, FCP decided to drill an appraisal well, ZCH-2, approximately 3 km east of the ZCH-1 discovery well. In parallel with the operational programme, a request was made of the Algerian authorities for an extension beyond November 10, 2005 (the end of the exploration phase according to the contract) to allow time for data analysis and evaluation of the ZCH field area.

The scheduled relinquishment of Block 406a, with the exception of a 112 km^2 Appraisal Area around the ZCH-1 discovery, occurred on November 10, 2005. Following an initial three month extension, a further six month extension was granted early in 2006, to August 10, 2006, by Sonatrach and the Ministry of Energy and Mines.



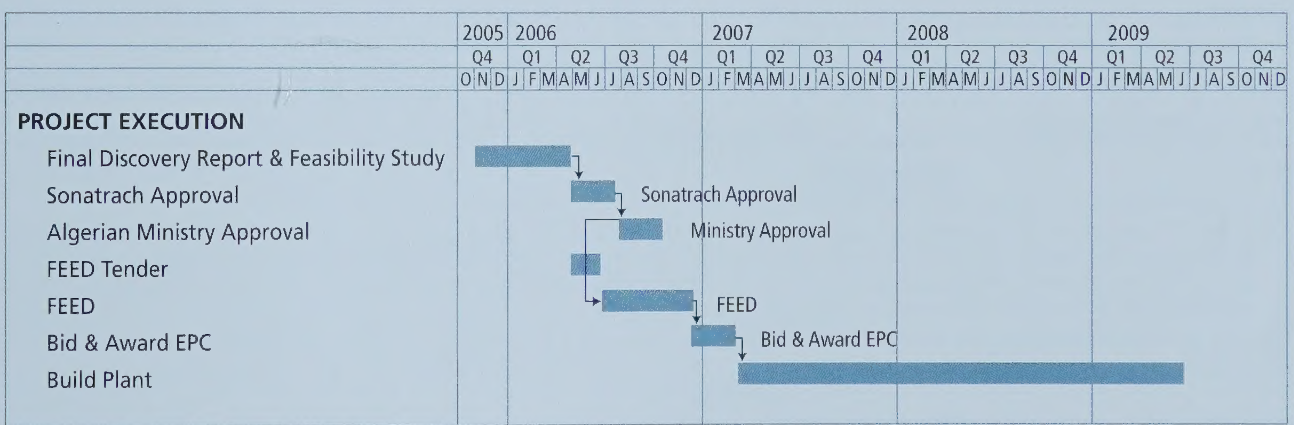
The ZCH-2 well was tested in the first quarter of 2006. The logging and testing results from ZCH-2 confirmed hydrocarbons in one zone, however the data also indicated the well to be isolated from the ZCH-1 discovery well. This essentially means that each well had penetrated a small, independent hydrocarbon pool as opposed to a large areal accumulation. The results of the Rhourde Yacoub drilling programme are being evaluated together with Sonatrach and a decision will be made regarding future activity on the Block prior to the end of the extension period.

COMMERCIALISATION

The MLE field on Block 405b is now defined by six wells and has a large proved and probable reserves base attributed to it. Late in 2005 discussions were held with Sonatrach regarding the best approach to bringing the MLE field into production. A key step in the process of commercialising a field in Algeria is the presentation of a Final Discovery Report which covers the following areas: geological mapping and reserves assessment; reservoir modelling; conceptual engineering studies; economics; and gas markets.

The MLE field Final Discovery Report has been prepared in co-operation with Sonatrach and submitted to the Algerian authorities for their review and finalisation. FCP has also commenced discussions with Sonatrach regarding either jointly (with Sonatrach) marketing the gas directly to an end buyer, or contracting with Sonatrach for it to market our interest in the MLE gas on our behalf, as part of its overall gas marketing process. FCP's development staff are working closely with Sonatrach and the Algerian Ministry of Energy and Mines on how best to bring the MLE field on production. The anticipated timeline for the project leading to first production in 2009 is shown in Figure 1. To achieve this timing, it is planned to award a front end engineering and design (FEED) contract by mid year. Following FEED, an EPC contract is planned to commence in early 2007.

Figure 1: **Production Timeline**



Although the MLE field is often referred to as a gas field there is a significant amount of hydrocarbons in liquid form that will also be produced. The liquids component is split predominantly into condensate and LPG. These products are valuable components to the production stream, and may eventually yield about 50 percent of the total revenue from the field. It is envisaged that the field would initially produce at: dry gas 328 million cubic feet per day; hydrocarbon liquids 40,000 barrels per day.

Eastern Algeria, where the Ledjmet Block is located, has been a petroleum province for many years and has an extensive pipeline system to handle production of liquids and gases from the region. Gas and liquids pipelines run approximately 120 km west of the Block carrying hydrocarbons for export and domestic use through a national grid extending from the eastern deserts to the Mediterranean coast and the Algerian borders, as shown in Figure 3 on page 8. The system is under constant expansion by Sonatrach and plans are already in place for further increases in capacity to handle the MLE production.

In addition to the detailed analysis of the MLE field characteristics, the Final Discovery Report looks beyond the field boundaries at the other significant discoveries made by FCP on Block 405b. The 'Block Plan' as outlined in this document shows that the MLE field is only a starting point for the region's gas production. Before the MLE field is on production, work is planned to commence on the commercialisation of the other discoveries on Block 405b to the west of MLE. This area will require further delineation drilling before new field development activity can be initiated.

RESERVES

The gross and FCP net recoverable reserves attributable to its interests in Block 405b and 406a estimated by independent engineers DeGolyer and MacNaughton as at December 31, 2005 are set out in the table below. A further analysis by Block is shown in Management's Discussion and Analysis.

Reserves have remained broadly the same as at the end of 2004, mainly due to the limited drilling activity on Block 405b, which constitutes the major portion of total reserves from the two Blocks.

RESERVES AS AT DECEMBER 31, 2005

	Gross Recoverable Reserves			Net Recoverable Reserves		
	Gas *(Bcf)*	Liquids *(MMBbls)*	Total Gas Equivalent *(Bcfe)*	Gas *(Bcf)*	Liquids *(MMBbls)*	Total Gas Equivalent *(Bcfe)*
Proved Undeveloped	**636**	**81**	**1,122**	**131**	**19**	**245**
Probable	**1,539**	**250**	**3,039**	**187**	**48**	**475**
Proved and Probable	**2,175**	**331**	**4,161**	**318**	**67**	**720**
Possible	**4,727**	**676**	**8,783**	**525**	**126**	**1,281**
Proved, Probable and Possible	**6,902**	**1,007**	**12,944**	**843**	**193**	**2,001**

Notes:

(1) See explanatory notes in the Block 405b and Block 406a reserves tables in Management's Discussion and Analysis.

(2) FCP's net reserves allocations are based upon the terms of the contracts relating to each Block. The Ledjmet Block 405b reserves are allocated annually based upon a sliding scale formula that considers project investment, production levels, product prices, and rates of inflation. Accordingly, the net allocation can vary annually and will be dependent upon the costs, production levels and product prices realised. For Yacoub Block 406a, FCP is allocated the equivalent of 49 percent of the gross production on an equivalent barrel basis.

(3) Gross development costs used in the determination of the future net revenues were $619 million, $1.46 billion and $2.99 billion, on a proved, proved plus probable, and proved plus probable plus possible basis, respectively. FCP's share of these costs are $452 million, $1.07 billion and $2.18 billion.

The net present value of future net revenues attributable to FCP's interests in Blocks 405b and 406a as at the end of 2005 are shown in the table below, at various discount rates and in constant prices. The prices used were based on the Brent crude oil reference price of $58.21 per barrel at the end of 2005. This represents a 44 percent increase from the price used as at the end of 2004 ($40.47 per barrel). The Company's net present value has increased significantly as at the end of 2005, predominantly as the result of the higher prices assumed.

	NET PRESENT VALUE OF FUTURE NET REVENUES					
	Discounted at (%/year)					
	0	5	8	10	15	20
	(M US$)	(M US$)	(M US$)	(M US$)	(M US$)	(M US$)
Proved Undeveloped	1,316,249	807,967	599,229	488,370	283,303	149,947
Probable	2,701,914	1,734,001	1,336,998	1,125,280	729,575	466,343
Total Proved Plus Probable	4,018,163	2,541,968	1,936,227	1,613,650	1,012,878	616,290
Possible	7,134,754	4,346,750	3,285,517	2,739,855	1,757,798	1,130,791
Total Proved Plus Probable Plus Possible	11,152,917	6,888,718	5,221,744	4,353,505	2,770,676	1,747,081

Notes:

(1) See explanatory notes in the Block 405b and Block 406a net present value tables in Management's Discussion and Analysis.

DRILLING PLAN

The operational plan for 2006 is an active one, as FCP plans to have three drilling rigs operating on Block 405b before the end of April. The principal aim of this programme is to generate additional proved and probable reserves. Wells have been located in such a way as to maximize the probability of achieving this goal. With LES-3 now undergoing production testing, the next six wells have been approved by Sonatrach and comprise three appraisal and three exploration wells. Figure 2 below shows the currently anticipated drilling schedule in respect of the programme.

Figure 2: **Drilling Timeline**

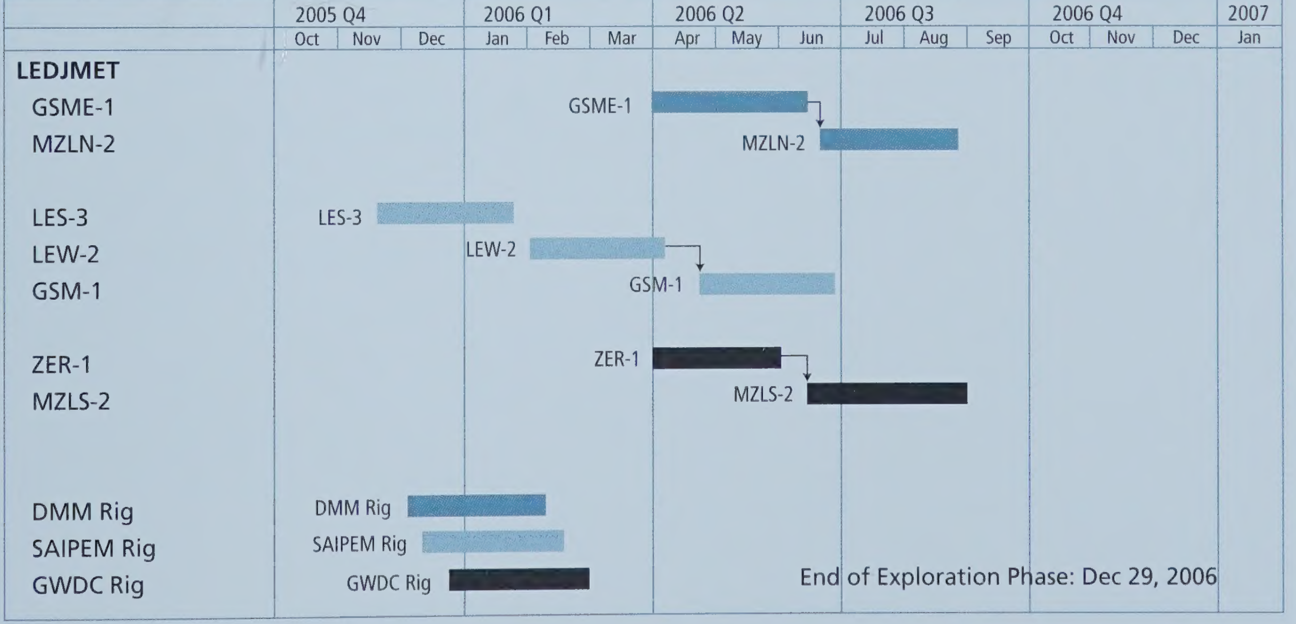


Figure 3: **Algeria Pipelines**

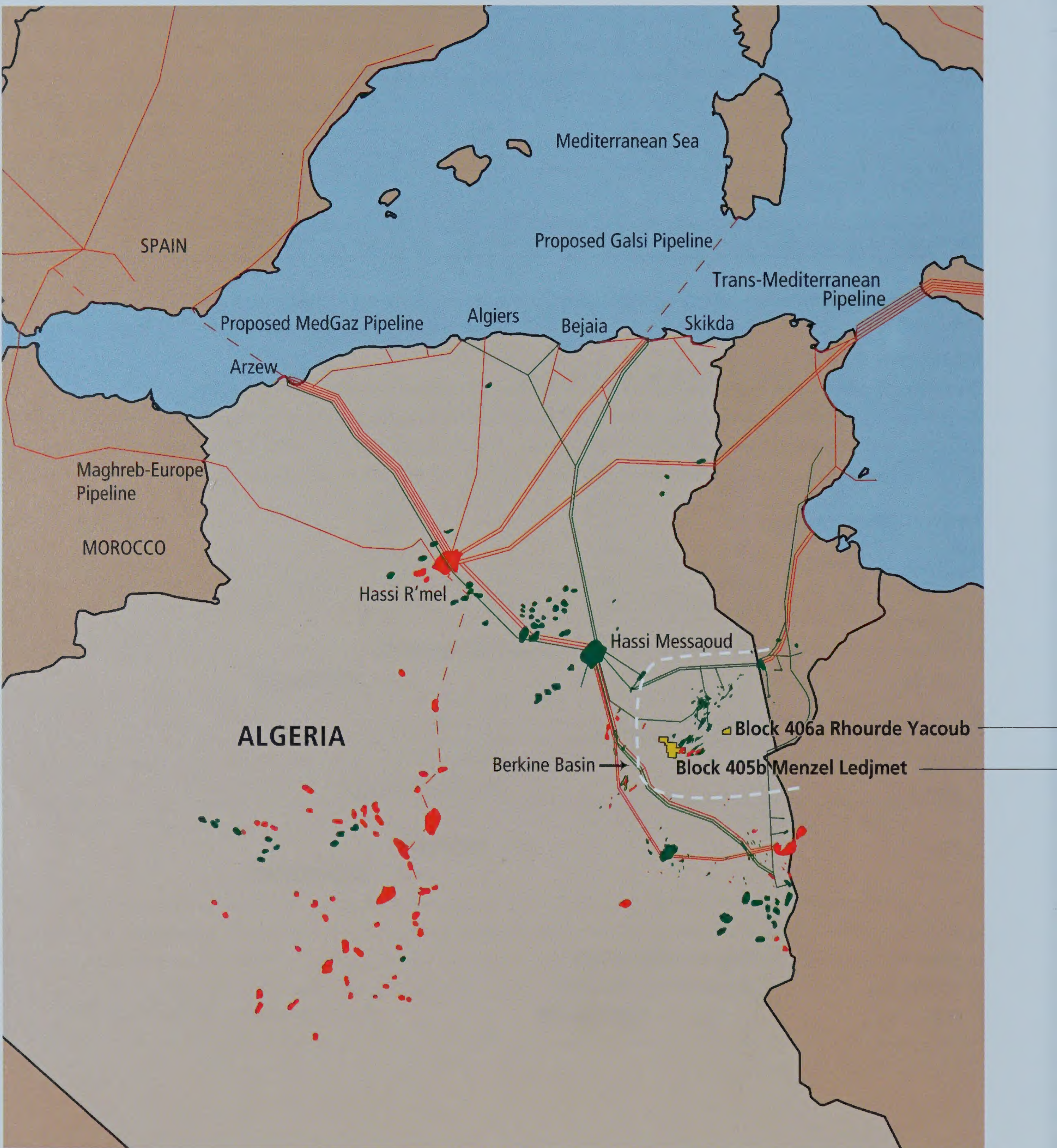


Figure 4:
Rhourde Yacoub Block 406a

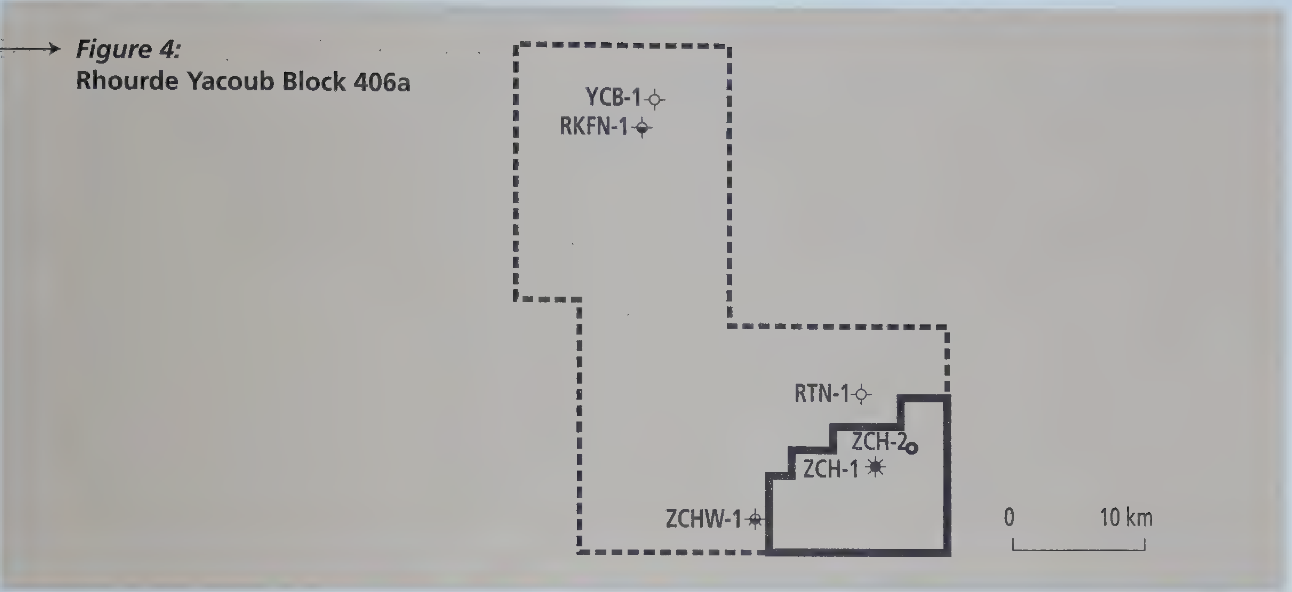
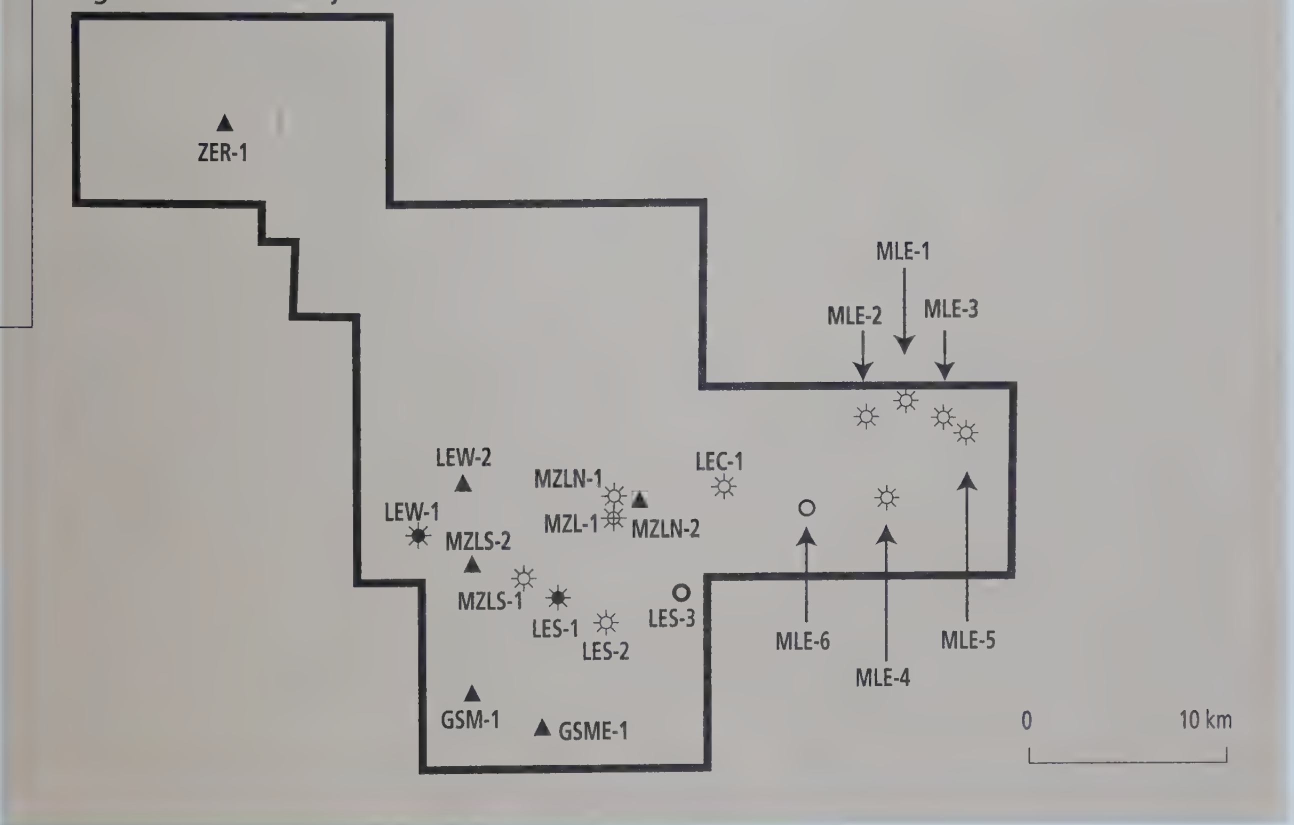


Figure 5: **Menzel Ledjmet Block 405b**



Cased Oil & Gas Well
Suspended Oil & Gas Well
Abandoned Oil Show
Abandoned Well
Cased Gas Well
Abandoned Gas Well
Cased Well
Proposed Drilling Location
Block Outline
Relinquished Area

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis that follows is intended to provide a summary of First Calgary Petroleums Ltd.'s (FCP, First Calgary or the Company) activities and results over the past two years as well as its financial position and future prospects. It should be read in conjunction with the audited financial statements for the years ended December 31, 2005 and 2004. All of the numbers in this discussion and analysis are expressed in U.S. dollars unless otherwise indicated. Additional information is available on FCP's website at www.fcpl.ca or on SEDAR's website at www.sedar.com.

BACKGROUND

First Calgary is an international oil and gas company currently operating in the Republic of Algeria. Through hydrocarbon agreements with Sonatrach, the national oil company of Algeria, FCP holds rights to explore, appraise and develop two large acreage Blocks in the hydrocarbon bearing Berkine Basin; Menzel Ledjmet Block 405b and Rhourde Yacoub Block 406a. The Company is in the development stage, and as a result, currently has no revenue from oil and gas operations.

Since acquiring the Blocks in late 2000 and 2001, First Calgary has made a number of significant oil and gas discoveries. Independent reserve engineers have assigned between 4.2 and 12.9 Tcfe[(1)] of reserves to the Blocks as at December 31, 2005 (2P and 3P basis, respectively)[(2)].

FCP's share of the potential future net revenues[(3)] from these reserves are estimated to be $1.9 billion to $5.2 billion, in present value terms discounted at eight percent.

In creating these assets for its shareholders, First Calgary has spent approximately $374 million of capital in Algeria. This capital was invested in:

- Establishing the Company to do business in Algeria;
- Acquiring lease interests;
- Acquiring and processing over 2,000 km^2 of three dimensional (3D) seismic data providing complete coverage of FCP's lands;
- Drilling 17 wells, of which 13 were successful (76 percent). Eight of the wells drilled were exploration, while the other nine were appraisal wells; and
- Completing appraisal activities and a development plan for the first segment to be commercialised (MLE field).

The ultimate commercialisation of the discoveries will transform the Company into a significant oil and gas production company.

MENZEL LEDJMET BLOCK 405B

In 2001, First Calgary entered into a Production Sharing Contract (PSC) with Sonatrach to explore and appraise Block 405b. The PSC consists of the following periods:

- a five year exploration and appraisal period where FCP is required to conduct certain drilling and seismic activities and identify any oil and gas discoveries;
- an additional appraisal period that is extendable up to two years to complete appraisal activities on oil and gas discoveries made during the exploration period; and
- an exploitation period for each commercial oil and gas discovery of 25 to 30 years, respectively.

Exploration and Appraisal Activities

The five year exploration period of the PSC ends on December 29, 2006 at which time First Calgary is required to have drilled its last commitment well under the PSC. FCP's next well to be drilled, ZER-1, is scheduled to commence in April and will satisfy this commitment.

1 Tcfe means trillion cubic feet of natural gas equivalent.

2 2P means Proved plus Probable reserves, 3P means Proved plus Probable plus Possible reserves as defined by NI 51-101, Standards of Disclosures for Oil and Gas Activities.

3 Net present value of future net revenues determined in accordance with NI 51-101, Standards of Disclosures for Oil and Gas Activities, using an 8 percent discount rate. Refer to the Company's Annual Information Form (AIF) for details on the assumptions made in determining the future net revenues. The estimated future net revenues do not represent fair market value.

During 2005, First Calgary spent $24.7 million on the following exploration and appraisal activities on the Block:

- ongoing geological and geophysical analysis and studies;
- completed and production tested the LES-2 well;
- finished drilling and cased the MLE-6 well;
- prepared access roads and drill platforms for future drilling locations;
- commenced drilling the LES-3 well; and
- initiated various testing and reservoir stimulation activities.

FCP's 2006 currently planned exploration and appraisal activities for Block 405b are budgeted at approximately $80 million and includes a seven well drilling programme, continued geological and geophysical analysis and a testing and reservoir stimulation programme. These seven wells, including LES-3 that commenced drilling in November 2005, are shown as proposed drilling locations in the map on page 9 (Figure 5). The goal of the 2006 drilling programme is to further delineate existing discoveries and explore undrilled structures before the end of the exploration period, to retain the maximum area for appraisal and development.

The work completed on Block 405b to date has significantly exceeded the minimum work obligations in the PSC. Exploration wells were spread out over various locations in order to explore the Block as effectively as possible within the five year exploration window provided by the PSC, and to maximize acreage retained for appraisal and possible exploitation.

Exploitation Activities

Following the appraisal of each oil and gas discovery, FCP and Sonatrach will obtain exploitation permits for any reserves determined to be commercial. All areas not subject to an exploitation permit will be returned to the Algerian government.

The PSC will allocate hydrocarbon production between FCP, Sonatrach and the Algerian state in accordance with a sliding scale formula based on such factors as production levels, product prices, project investment and rates of inflation. Pursuant to the formula, First Calgary's annual share of production will range from 27.72 percent to 8.16 percent. FCP will be allocated the 27.72 percent of production until the Block's cumulative return on investment exceeds six times. Once the Block's cumulative return on investment exceeds eight times, FCP will be allocated 8.16 percent of production. Return on investment is calculated in 2001 dollars based on the ratio of gross revenues to gross capital investment on the entire Block. All Algerian state royalties and income taxes are paid by Sonatrach from its share of hydrocarbon production. The PSC provides Sonatrach with the right to participate in any field development with a 25 percent interest.

The MLE field is the first discovery that has been appraised by FCP and will be the first stage in the development of the Block. During 2005, reserve analysis, reservoir modeling and conceptual engineering work continued in order to evaluate various development scenarios. A development plan has been outlined and submitted to Sonatrach as part of the MLE field Final Discovery Report, for review. Subject to finalizing marketing and financing arrangements, First Calgary expects to obtain a declaration of commerciality from Sonatrach and apply to the Ministry for an exploitation permit. Simultaneously, FCP will move forward on front end engineering and design (FEED), the next step towards commercialisation, in order to accelerate the project.

The reserves, and associated potential future net cash flows of a staged Block development attributable to FCP, are as follows:

	BLOCK 405B RESERVES AS AT DECEMBER 31, 2005					
	Gross Recoverable Reserves			Net Recoverable Reserves		
	Gas *(Bcf)*	Liquids *(MMBbls)*	Total Gas Equivalent *(Bcfe)*	Gas *(Bcf)*	Liquids *(MMBbls)*	Total Gas Equivalent *(Bcfe)*
Proved Undeveloped	**622**	**77**	**1,084**	**131**	**16**	**227**
Probable	**1,468**	**227**	**2,830**	**187**	**30**	**367**
Proved and Probable	**2,090**	**304**	**3,914**	**318**	**46**	**594**
Possible	**4,504**	**599**	**8,098**	**525**	**69**	**939**
Proved, Probable and Possible	**6,594**	**903**	**12,012**	**843**	**115**	**1,533**

Notes:

(1) The gross and net recoverable reserves volumes are estimated under the constant price case.

(2) Liquids consist of Oil, Condensate and LPG.

(3) FCP's net reserves allocations are based on the PSC where production is allocated annually based upon a sliding scale formula that considers project investment, production levels, product prices, and rates of inflation. Accordingly, the net allocation can vary annually and will be dependent upon the costs, production levels and product prices realised.

(4) Gas equivalents have been calculated by the Company at one barrel for six thousand cubic feet of gas equivalent. Using gas equivalent units may be misleading, particularly if used in isolation. A conversion ratio of one barrel to six thousand cubic feet of gas is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

(5) Bcf means billion cubic feet of gas, Bcfe means billion cubic feet of gas equivalent and MMBbls means millions of barrels of liquid.

(6) Net recoverable reserves assumes Sonatrach exercises its right to participate in the developments.

	BLOCK 405B NET PRESENT VALUE OF FUTURE NET RESERVES					
	Discounted at (%/year)					
	0 (M US$)	5 (M US$)	8 (M US$)	10 (M US$)	15 (M US$)	20 (M US$)
Proved Undeveloped	1,239,467	755,016	556,844	451,832	258,120	132,649
Probable	2,412,482	1,553,503	1,199,786	1,010,582	655,446	417,709
Total Proved Plus Probable	3,651,949	2,308,519	1,756,630	1,462,414	913,566	550,358
Possible	6,187,123	3,740,018	2,817,379	2,344,826	1,496,902	956,379
Total Proved Plus Probable Plus Possible	9,839,072	6,048,537	4,574,009	3,807,240	2,410,468	1,506,737

Notes:

(1) The net present values of future net revenues are estimated under the constant price case using prices based on the Brent crude oil reference price of $58.21 per barrel at the end of 2005.

(2) Refer to the Company's AIF for further details on the assumptions made in determining the future net revenues. Gross development costs used in the determination of the future net revenues were $569 million, $1.37 billion and $2.75 billion, on a proved, proved plus probable, and proved plus probable plus possible basis, respectively. Assuming Sonatrach exercises its right to back-in for 25 percent, FCP will be responsible for 75 percent of these costs.

(3) The estimated future net revenues do not represent fair market value.

(4) Calculated as at the end of 2005.

RHOURDE YACOUB BLOCK 406A

In 2000, First Calgary entered into a Joint Venture Agreement (JVA) with Sonatrach to explore and appraise Block 406a. The Block was exploratory in nature, but adjacent to existing oil production. The JVA's five year exploration period ended on November 10, 2005 and was extended to August 10, 2006 to complete appraisal activities. The Block acreage has been relinquished except for that portion surrounding the ZCH discovery.

During 2005, First Calgary spent $27.4 million on the following exploration and appraisal activities on the Block:

- completed the acquisition and interpretation of the 2004 3D seismic programme;
- drilled and cased the ZCHW-1 commitment well;
- drilled and abandoned the RTN-1 commitment well; and
- drilled and cased the ZCH-2 appraisal well.

Pursuant to the JVA, exploitation periods for each commercial oil and gas discovery are 15 and 20 years, respectively, plus a five year extension option. During the exploitation period, the JVA allocates to the Company 49 percent of the hydrocarbon production (as gas and liquids value or as equivalent liquids value). FCP is responsible for paying Algerian state royalties and income taxes on its share of production. A portion of the total recoverable natural gas reserves will be considered strategic reserves and excluded by Algerian law from the JVA.

The Block 406a 2006 capital programme is budgeted at approximately $5 million and includes completing and production testing the ZCH-2 well, reprocessing the ZCH 3D seismic data and evaluating potential development scenarios. A decision on the way forward with this Block is planned by August 2006.

BLOCK 406A RESERVES AS AT DECEMBER 31, 2005

	Gross Recoverable Reserves			Net Recoverable Reserves		
	Gas *(Bcf)*	Liquids *(MMBbls)*	Total Gas Equivalent *(Bcfe)*	Gas *(Bcf)*	Liquids *(MMBbls)*	Total Gas Equivalent *(Bcfe)*
Proved Undeveloped	**14**	**4**	**38**	–	**3**	**18**
Probable	**71**	**23**	**209**	–	**18**	**108**
Proved and Probable	**85**	**27**	**247**	–	**21**	**126**
Possible	**223**	**77**	**685**	–	**57**	**342**
Proved, Probable and Possible	**308**	**104**	**932**	–	**78**	**468**

Notes:

(1) The gross and net recoverable reserves volumes are estimated under the constant price case.

(2) Liquids consist of Oil, Condensate and LPG.

(3) FCP's net reserves allocations are defined as the volume of oil, condensate and LPG that comprise First Calgary's 49 percent joint venture interest in the estimated recoverable reserves of the Block, on a barrel of oil equivalent basis.

(4) Gas equivalents have been calculated by the Company at one barrel for six thousand cubic feet of gas equivalent. Using gas equivalent units may be misleading, particularly if used in isolation. A conversion ratio of one barrel to six thousand cubic feet of gas is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

(5) Bcf means billion cubic feet of gas, Bcfe means billion cubic feet of gas equivalent and MMBbls means millions of barrels of liquid.

BLOCK 406A NET PRESENT VALUE OF FUTURE NET RESERVES

	Discounted at (%/year)					
	0 *(M US$)*	5 *(M US$)*	8 *(M US$)*	10 *(M US$)*	15 *(M US$)*	20 *(M US$)*
Proved Undeveloped	76,782	52,951	42,385	36,538	25,183	17,298
Probable	289,432	180,498	137,212	114,698	74,129	48,634
Total Proved Plus Probable	366,214	233,449	179,597	151,236	99,312	65,932
Possible	947,631	606,732	468,138	395,029	260,896	174,412
Total Proved Plus Probable Plus Possible	1,313,845	840,181	647,735	546,265	360,208	240,344

Notes:

(1) The net present values of future net revenues are estimated under the constant price case using prices based on the Brent crude oil reference price of $58.21 per barrel at the end of 2005.

(2) Gross development costs used in the determination of the future net revenues were $50 million, $96 million and $238 million, on a proved, proved plus probable, and proved plus probable plus possible basis, respectively. FCP's share of these costs is 49 percent.

(3) The estimated future net revenues do not represent fair market value.

(4) Calculated as at the end of 2005.

CAPITAL EXPENDITURES

The Company's 2005 capital expenditures on Blocks 405b and 406a totaled $64.1 million compared to $108.6 million in 2004, reflecting a decreased level of exploration and appraisal activity.

2005 CAPITAL EXPENDITURES		Block 405b		Block 406a		Total
Drilling, completion and testing	**$**	**24,266**	**$**	**26,251**	**$**	**50,517**
Geological and geophysical		**336**		**1,269**		**1,605**
MLE commercialisation		**5,501**		**–**		**5,501**
Training bonuses		**161**		**168**		**329**
	$	**30,264**	**$**	**27,688**	**$**	**57,952**
Block management and administration						**6,158**
					$	**64,110**

2004 CAPITAL EXPENDITURES		Block 405b		Block 406a		Total
Drilling, completion and testing	$	81,265	$	10,330	$	91,595
Geological and geophysical		5,697		4,993		10,690
MLE commercialisation		823		–		823
Training bonuses		152		156		308
	$	87,937	$	15,479	$	103,416
Block management and administration						5,193
					$	108,609

There are a number of factors that impact drilling costs, including the well location and access, surface condition, well depth and availability of services and supplies. The Block 406a wells are being drilled to depths averaging 3950 metres and the Block 405b wells to 4500 metres. Ongoing drilling costs are expected to range between $6 and $7 million per well on Block 406a and between $7 and $8 million per well on Block 405b. In addition, testing and completion costs on the Block 405b wells have averaged $2 to $3 million per well due to multiple zones being tested and to maximize the data collected.

LIQUIDITY AND CAPITAL RESOURCES

Without revenue from oil and gas operations, FCP relies upon equity to fund its short-term operations and capital programmes. In 2005, FCP raised $104.6 million, net of issue costs, from the sale of 16,925,000 common shares. Additional funding is derived periodically from the exercise of stock options and warrants. In 2005, 2,835,919 common shares were issued from the exercise of options and warrants, resulting in $2.3 million in proceeds.

Development of the Ledjmet Block 405b reserves through to commercial production will require significant funding. This funding is expected to be in the form of debt, equity, joint ventures or some combination thereof. With the current high commodity price environment, the capital markets appear receptive to the oil and gas industry and the Company believes this environment will continue into the foreseeable future. First Calgary has been approached by a number of parties seeking to fund the Ledjmet development. To date, no arrangements have been entered into, however the Company believes the necessary funding will be available when required on reasonable commercial terms.

FCP's 2006 ongoing seven well exploration and appraisal programme will be funded from the Company's 2005 year end working capital. The Company's year end working capital was $92.9 million compared to $52.1 million in the prior year. Changes in the Company's working capital are primarily a function of the timing and magnitude of its equity financings and capital expenditures, as detailed below:

SOURCES (USES) OF WORKING CAPITAL		
Working capital at December 31, 2004	$	52,115
Equity issues		104,610
Proceeds from the exercise of options and warrants		2,271
Capital expenditures		(64,110)
Net administrative costs		(1,966)
Working capital at December 31, 2005	$	92,920

The Company is listed on the Toronto Stock Exchange and the AIM market of the London Stock Exchange. The fully-diluted number of shares outstanding at the following dates were:

SHARES OUTSTANDING	**March 14, 2006**	December 31, 2005
Common shares	**203,052,127**	202,847,594
Employee stock options	**9,638,500**	9,132,033
Fully-diluted shares outstanding	**212,690,627**	211,979,627

CONTRACTUAL OBLIGATIONS

The Company has the following contractual obligations outstanding as at December 31, 2005:

		Payments Due by Period				
CONTRACTUAL OBLIGATIONS		Total		< 1 year		1 – 3 years
Operating Leases	$	742	$	421	$	321
Consulting Agreements		5,000		5,000		–
Exploration Commitments[1]		7,000		7,000		–
Drill Rig Contracts[2]		8,985		6,690		2,295
	$	21,727	$	19,111	$	2,616

(1) Relates to the last exploration well commitment under the Block 405b PSC, to be drilled in Q2 2006.

(2) Amounts are the minimum payments required under the rig contracts.

OPERATING RESULTS

Selected Annual Information

(000's of U.S. dollars)		**2005**		2004		2003
Interest income	**$**	**3,013**	$	1,290	$	638
Expenses						
General and administrative		**4,746**		4,027		2,604
Stock-based compensation		**5,514**		5,181		4,679
Foreign exchange loss (gain)		**208**		(1,542)		578
Write-off Yemen investment		**–**		–		1,035
Earthquake donation – Algeria		**–**		–		1,000
Other expenses		**116**		189		392
		10,584		7,855		10,288
Net loss		**(7,571)**		(6,565)		(9,650)
Net loss per share		**(0.04)**		(0.04)		(0.07)
Total Assets	**$**	**482,776**	$	393,042	$	164,363

Interest income increased $1.7 million in 2005 as a result of higher average interest rates and higher average cash and term-deposit balances.

General and administrative expenses increased $0.7 million in 2005 from 2004. The increase is primarily the result of incremental costs associated with the strategic review process.

FCP recorded a net foreign exchange loss of $0.2 million during 2005, arising from the effects of exchange rate fluctuations on Canadian dollar and British pound cash and accounts payable balances.

Selected Quarterly Information

(000's of U.S. dollars)	**2005**				2004			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Interest income	**$ 887**	**$ 1,039**	**$ 428**	**$ 659**	$ 386	$ 251	$ 238	$ 415
Expenses								
General and administrative	**1,192**	**1,001**	**1,414**	**1,139**	1,165	904	1,048	910
Stock-based compensation	**3,892**	**373**	**503**	**746**	1,442	975	1,375	1,389
Foreign exchange loss (gain)	**(70)**	**(2,181)**	**932**	**1,527**	(820)	(2,151)	1,137	292
Other expenses	**54**	**49**	**46**	**(33)**	(102)	109	92	90
	5,068	**(758)**	**2,895**	**3,379**	1,685	(163)	3,652	2,681
Net income (loss)	**(4,181)**	**1,797**	**(2,467)**	**(2,720)**	(1,299)	414	(3,414)	(2,266)
Net income (loss) per share	**(0.02)**	**0.01**	**(0.01)**	**(0.01)**	(0.01)	0.00	(0.02)	(0.01)
Total Assets	**$ 482,776**	**$ 478,103**	**$ 475,286**	**$ 375,384**	$ 393,042	$ 179,912	$ 169,229	$ 169,912

Stock-based compensation increased in the fourth quarter of 2005 as a result of the expense relating to a company-wide stock option grant and options granted to new employees.

During the third quarter of 2005 FCP realised a foreign exchange gain on the conversion of the June equity financing proceeds into U.S. dollars. Those financing proceeds were denominated in Canadian dollars and British pounds.

BUSINESS RISKS AND UNCERTAINTIES

The Company's business is subject to risks inherent in oil and gas exploration and development operations. In addition, there are risks associated with the Company's development stage of operations and the foreign jurisdiction in which it operates. The Company has identified certain risks pertinent to its business including: exploration and reserve risks, drilling and operating risks, costs and availability of materials and services, capital markets and the requirement for additional capital, loss of or changes to production sharing, joint venture or related agreements, economic and sovereign risks, possibility of less developed legal systems, reliance on strategic relationships, market risk, volatility of future oil and gas prices and foreign currency risk.

FCP attempts to monitor, assess and mitigate certain of these risks by retaining an experienced team of professionals and using modern technology. Further, the Company has focused its activities in a known hydrocarbon basin in a jurisdiction that has previously established long-term oil and gas ventures with foreign oil and gas companies, existing infrastructure of services and oil and gas transportation facilities, and reasonable proximity to markets. The Company also retains consultants resident in Algeria to monitor economic and political developments and to assist with operating, administrative and legal matters. There are certain risks, however, over which the Company has little or no control.

OUTLOOK

First Calgary's strategy is primarily to commercialise Block 405b and increase proved and probable reserves. The plan for 2006 is to make progress with both of these, through its commercialisation discussions with Sonatrach and capital investment programme. In addition, financing alternatives are currently being investigated to enable the Company to proceed to the development phase.

DISCLOSURE CONTROLS AND PROCEDURES

An evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), of the effectiveness of the design and operation of the Company's disclosure controls and procedures, as defined in Multilateral Instrument 52-109. Based on that evaluation, the Company's management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures are effective as of December 31, 2005.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Petroleum and Natural Gas Operations

FCP follows the full cost method to account for its petroleum and natural gas operations, whereby all costs of exploring for and developing petroleum and natural gas reserves are capitalized and accumulated in country-by-country cost centres. These capitalized costs will be depleted using the unit-of-production method based on estimates of proved reserves. The costs in cost centres from which there has been no commercial production are not subject to depletion until commercial production commences. These capitalized costs are assessed to determine whether it is likely such costs will be recovered in the future. Costs which are not likely to be recovered in the future are written-off.

Petroleum and natural gas reserves form the basis for a number of accounting estimates and support for the carrying amount of petroleum and natural gas properties. The estimation of reserves is a subjective process. Forecasts are based on engineering data, projected future rates of production, estimated commodity price forecasts and the timing of future expenditures, all of which are subject to numerous uncertainties and various interpretations. The Company expects that its estimates of reserves will change to reflect updated information. Reserve estimates can be revised upward or downward based on the results of future drilling, testing, production levels and economics of recovery based on cash flow forecasts.

ADVISORY REGARDING FORWARD-LOOKING STATEMENTS

Certain information with respect to the Company contained in this report, including management's assessment of future plans and operations, contains forward-looking statements. These forward-looking statements are based on assumptions and are subject to numerous risks and uncertainties, some of which are beyond FCP's control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, currency exchange rate fluctuations, reserve estimates, environmental risks, competition from other explorers, stock market volatility and ability to access sufficient capital. FCP's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any events anticipated by the forward-looking statements will transpire or occur.

March 20, 2006

MANAGEMENT'S REPORT TO THE SHAREHOLDERS

Management is responsible for the integrity and objectivity of the financial statements. The accompanying financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada using estimates and careful judgment, particularly in those circumstances where transactions affecting a current period are dependent upon future events. The accompanying financial statements have been prepared using policies and procedures established by management and reflect fairly the Company's financial position, results of operations and changes in financial position, within reasonable limits of materiality and within the framework of the accounting policies outlined in the notes to the consolidated financial statements.

Management has established and maintains a system of internal controls which is designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and the financial information is reliable and accurate.

The consolidated financial statements have been examined by external auditors. Their examination provides an independent view as to management's discharge of its responsibilities insofar as they relate to the fairness of reported operating results and financial condition of the Company.

The Audit Committee of the Board of Directors has reviewed the consolidated financial statements with management and the external auditors. The consolidated financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.

Richard G. Anderson
President & Chief Executive Officer

J. van der Welle

John van der Welle
Vice President, Finance & Chief Financial Officer

March 20, 2006

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of First Calgary Petroleums Ltd. as at December 31, 2005 and 2004 and the consolidated statements of operations and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Calgary, Canada

March 14, 2006

CONSOLIDATED BALANCE SHEETS

December 31 (Expressed in thousands of U.S. dollars)		2005		2004
ASSETS				
Current assets:				
Cash and short-term deposits (note 3)	**$**	**107,882**	$	81,874
Accounts receivable		**338**		357
Deposits and prepaid expenses		**387**		758
		108,607		82,989
Property, plant and equipment (note 4)		**374,169**		310,053
	$	**482,776**	$	393,042
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Accounts payable and accrued liabilities (note 5)	**$**	**15,687**	$	30,874
Asset retirement obligations (note 6)		**436**		339
Shareholders' equity:				
Capital stock (note 7)		**484,694**		377,288
Contributed surplus (note 7)		**14,430**		9,441
Cumulative translation adjustment		**6,502**		6,502
Deficit		**(38,973)**		(31,402)
		466,653		361,829
Operations and commitments (notes 2 and 10)				
Contingency (note 12)				
	$	**482,776**	$	393,042

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Richard G. Anderson
Director

Raymond P. Antony
Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

Years ended December 31 (Expressed in thousands of U.S. dollars)		2005		2004
Revenue:				
Interest	$	**3,013**	$	1,290
Expenses:				
General and administrative		**4,746**		4,027
Stock-based compensation (note 7)		**5,514**		5,181
Foreign exchange loss (gain)		**208**		(1,542)
Capital taxes		**25**		110
Depreciation and accretion		**91**		79
		10,584		7,855
Loss for the year		**(7,571)**		(6,565)
Deficit, beginning of year		**(31,402)**		(24,837)
Deficit, end of year	$	**(38,973)**	$	(31,402)
Loss per share (note 7)	$	**(0.04)**	$	(0.04)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31 (Expressed in thousands of U.S. dollars)	2005	2004
Operating activities:		
Loss for the year	$ (7,571)	$ (6,565)
Items not involving cash:		
Stock-based compensation	5,514	5,181
Unrealized foreign exchange loss (gain)	398	(1,612)
Depreciation and accretion	91	79
	(1,568)	(2,917)
Change in non-cash working capital	(3,220)	1,430
	(4,788)	(1,487)
Financing activities:		
Proceeds from issuance of shares	110,502	74,242
Proceeds from exercise of warrants	177	6,602
Proceeds from exercise of options	2,094	2,394
Issue costs	(5,892)	(4,320)
	106,881	78,918
Investing activities:		
Capital expenditures	(64,110)	(108,609)
Change in non-cash working capital	(11,821)	16,255
	(75,931)	(92,354)
Increase (decrease) in cash and short-term deposits	26,162	(14,923)
Effect of exchange rate fluctuations on cash and short-term deposits	(154)	1,612
Cash and short-term deposits, beginning of year	81,874	95,185
Cash and short-term deposits, end of year	$ 107,882	$ 81,874

See accompanying notes to consolidated financial statements.

First Calgary Petroleums Ltd. (the "Company" or "FCP") is incorporated in Alberta under the Business Corporations Act (Alberta) and its primary business activity is the exploration for and development of petroleum and natural gas in Algeria.

1. SIGNIFICANT ACCOUNTING POLICIES:

(a) Basis of presentation:

The consolidated financial statements have been prepared using Canadian generally accepted accounting principles and include the accounts of the Company and its wholly owned subsidiaries..

(b) Petroleum and natural gas operations:

The Company follows the full cost method of accounting for petroleum and natural gas operations, whereby all costs of exploring for and developing petroleum and natural gas reserves are capitalized and accumulated in country-by-country cost centres. Such costs include land acquisition costs, geological and geophysical costs, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells, interest costs on major development projects and overhead charges directly related to acquisition, exploration and development activities.

The costs (including exploratory dry holes) in cost centres from which there has been no commercial production are not subject to depletion until commercial production commences. The capitalized costs are periodically assessed, using a ceiling test, to determine whether it is likely such costs will be recovered in the future. To the extent there are costs which are not likely to be recovered in the future, they are written-off.

Petroleum and natural gas properties are subject to a ceiling test in each reporting period to determine that the costs are recoverable and do not exceed the fair value of the properties. The costs are assessed to be recoverable if the sum of the undiscounted cash flows expected from the production of proved reserves and the lower of cost and market of unproved properties exceed the carrying values of the petroleum and natural gas properties. If the carrying value of the petroleum and natural gas properties is not assessed to be recoverable, an impairment loss is recognized to the extent that the carrying value exceeds an estimated fair value. The fair value estimate is normally based on the sum of the discounted cash flows expected from the production of proved and probable reserves and the lower of cost and market of unproved properties. The cash flows are estimated using forecast product prices and costs and are discounted using a risk-free interest rate.

(c) Asset retirement obligations:

The Company recognizes the estimated fair value of legal obligations associated with the retirement of petroleum and natural gas properties in the period in which they are incurred. The obligation is recorded as a liability with a corresponding increase in the carrying amount of the petroleum and natural gas properties. The capitalized amount will be depleted on a unit-of-production basis over the life of the proved reserves. The obligation is increased each period, or accretes, due to the passage of time and is recorded in the statement of operations. Revisions to the estimated fair value would result in an adjustment to the obligation and carrying amount of the petroleum and natural gas properties.

(d) Foreign currency:

All of the Company's operations are considered financially and operationally integrated. The U.S. dollar is the Company's functional currency. As a result, monetary assets and liabilities denominated in foreign currencies are translated at exchange rates in effect at the balance sheet date and non-monetary assets and liabilities are translated at rates in effect when the assets were acquired or liabilities incurred. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates. Foreign exchange gains and losses are recorded in the statement of operations.

(e) Stock-based compensation:

The Company accounts for all stock options and warrants granted using the fair value method. Under this method, compensation expense is measured at fair value at the grant date using the Black-Scholes option pricing model and recognized over the vesting period with a corresponding credit to contributed surplus.

Consideration received upon the exercise of stock options together with the amount of non-cash compensation expense recognized in contributed surplus is recorded as share capital.

(f) Income taxes:

The Company uses the asset and liability method of accounting for income taxes. Under this method current income taxes are recognized for the estimated income taxes payable for the current year. Future income taxes are recognized for temporary differences between the tax and accounting bases of assets and liabilities and for the benefit of losses available to be carried forward for tax purposes that are likely to be realised. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

(g) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The ceiling test is based upon estimates of market values of unproved properties, proved reserves, petroleum and natural gas prices, future costs and other assumptions. These estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates could be significant.

(h) Per share amounts:

Basic per share amounts are computed by dividing the earnings or loss by the weighted average shares outstanding during the reporting period. Diluted amounts are computed using the treasury stock method. The treasury stock method assumes that proceeds received from the exercise of in-the-money options and warrants are used to repurchase shares at the average market price for the period. The difference between the number of shares that could have been purchased at market prices in the period and the number of in-the-money options and warrants is added to the weighted average shares outstanding.

2. OPERATIONS AND COMMITMENTS:

The Company's operations are in Algeria where it has the rights to explore, appraise and develop two blocks, Ledjmet Block 405b ("Block 405b") and Yacoub Block 406a ("Block 406a"). The Company's rights and obligations in each Block are set out in agreements with Sonatrach, the national oil company of Algeria.

(a) Block 405b:

In 2001 the Company entered into a production-sharing contract (PSC) with Sonatrach to explore and appraise Block 405b in the Berkine Basin. The five year exploration period of the PSC ends on December 29, 2006. FCP's remaining work commitment under the PSC is to drill one exploration well (ZER-1) prior to the end of the exploration period and is expected to cost $7 million. If the Company fails to satisfy this work obligation, the rights, other than for which an exploitation permit has been granted or requested, will be returned and the Company will be liable to pay Sonatrach a penalty of $6.25 million. In addition, the Company is obligated to pay an annual training bonus in the amount of $150 for the duration of the contract, including exploitation periods.

Each discovery made during the exploration period is subject to an appraisal work programme that may extend up to two years beyond the exploration period. Following the appraisal of each discovery, the Company and Sonatrach will obtain exploitation permits for any reserves determined to be commercial and all lands not subject to an exploitation permit will be returned to the government. During the exploitation period, the PSC allocates hydrocarbon production between FCP, Sonatrach and the Algerian State in accordance with a sliding scale formula based on such factors as production levels, product prices, project investment and rates of inflation. Pursuant to the formula, the Company's annual share of production may range from 27.72 to 8.16 percent. All Algerian state royalties and income taxes are paid by Sonatrach from its share of hydrocarbon production. Exploitation periods for each commercial oil and natural gas discovery are 25 and 30 years, respectively.

The PSC provides the Company with the right to appraise and develop the MLE reserves discovered with the MLE-1 well. As compensation for this right, the Company is committed to pay Sonatrach a reserve-based access fee of twenty-five cents per barrel of oil equivalent calculated on the total estimated recoverable MLE reserves. The access fee will be determined at the time MLE reserves are declared commercial by Sonatrach and will be payable as a deduction from Sonatrach's share of the MLE development expenditures.

(b) Block 406a:

In 2000 the Company entered into a joint venture agreement (JVA) with Sonatrach to explore Block 406a in the Berkine Basin. The five year exploration period ended on November 10, 2005 at which time the Block acreage, excluding the acreage surrounding the ZCH discovery, was returned to the Algerian government. All of the exploration work commitments on this Block were satisfied. The Company has been granted an extension to August 10, 2006 to complete its appraisal and delineation of the ZCH reserves and to submit a development plan.

Pursuant to the JVA, exploitation periods for each commercial oil and natural gas discovery are 15 and 20 years respectively, plus a five year extension option. During the exploitation period, the JVA allocates 49 percent of the hydrocarbon production or equivalent volume thereof to the Company. FCP is responsible for paying Algerian state royalties and income taxes on its share of production. A portion of the total recoverable natural gas reserves above a certain threshold will be considered strategic reserves and excluded by Algerian law from the JVA. In addition, the Company is obligated to pay an annual training bonus in the amount of $150 for the duration of the contract, including exploitation periods.

While the Company currently has sufficient resources to meet its required work commitments, these resources may be directed to other, optional capital programmes depending on the success of expenditures and other opportunities which become available to the Company. In addition, the development of the Company's reserves through to commercial production will require additional funding in the form of debt, equity, joint ventures or some combination thereof. FCP is currently evaluating several development scenarios for the MLE field. The estimated gross development costs of the various scenarios range up to $860 million (FCP net $645 million). To develop the Block 405b total proved, probable and possible reserves, gross development costs could reach an estimated $2.75 billion (FCP net $2.1 billion). FCP is obligated to finance 75 percent of the development expenditures, assuming Sonatrach will exercise its right to participate in a development.

3. CASH AND SHORT-TERM DEPOSITS:

The Company considers deposits in banks, certificates of deposit and short-term investments with original maturities of three months or less as cash and short-term deposits. The components of cash and short-term deposits are as follows:

	2005	2004
Cash on deposit:		
U.S. dollars	**$ 2,759**	$ 1,833
Algerian dinars	**1,614**	577
Canadian dollars	**438**	482
British pounds	**152**	1,574
Bank term deposits:		
U.S. dollars	**98,454**	506
Canadian dollars	**3,672**	22,079
British pounds	**793**	54,823
	$ 107,882	$ 81,874

As at December 31, 2005, $1.8 million of cash was restricted until January 2006 for an inventory purchase.

4. PROPERTY, PLANT AND EQUIPMENT:

2005	Cost	Accumulated depreciation	Net book value
Petroleum and natural gas properties - Algeria	**$ 373,809**	**$ –**	**$ 373,809**
Office furniture and equipment	**626**	**266**	**360**
	$ 374,435	**$ 266**	**$ 374,169**

2004	Cost	Accumulated depreciation	Net book value
Petroleum and natural gas properties - Algeria	$ 309,751	$ –	$ 309,751
Office furniture and equipment	504	202	302
	$ 310,255	$ 202	$ 310,053

During the year, the Company capitalized $6.1 million (2004 - $5.2 million) of overhead charges relating directly to the exploration and development activities in Algeria.

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES:

		2005		2004
Trade payables:				
U.S. dollars	$	**6,160**	$	13,004
Algerian dinars		**2,760**		3,746
Canadian dollars		**456**		2,151
British pounds		**119**		423
Capital accrual:				
U.S. dollars		**6,192**		11,550
	$	**15,687**	$	30,874

6. ASSET RETIREMENT OBLIGATIONS:

The Company has an obligation to plug and abandon its petroleum and natural gas wells at the end of their useful lives provided Sonatrach does not elect to continue production after the hydrocarbon contract expiry dates. The present value of this obligation has been projected using estimates of the future costs and the timing of abandonment. At December 31, 2005 the Company estimated the present value of its asset retirement obligations to be $0.4 million (2004 – $0.3 million) based on a future liability of $1.9 million (2004 – $1.6 million). These costs are expected to be incurred near the end of the exploitation phase under the Algerian hydrocarbon contracts. A credit-adjusted risk-free discount rate of seven percent and an inflation rate of two percent were used to calculate the present value.

7. CAPITAL STOCK:

(a) Authorized share capital:

Unlimited number of common shares without nominal or par value

Unlimited number of preferred shares without nominal or par value

(b) Issued share capital:

	Number of Shares		Amount
Common Shares:			
Balance, December 31, 2003	163,056,686	$	165,181
Acquisition of net profits interest (i)	10,150,000		132,600
Issued on public offering (ii)	6,000,000		74,242
Issued on exercise of share purchase warrants	1,844,424		6,602
Issued on exercise of employee stock options	2,035,565		2,394
Transfer from contributed surplus on exercise of stock options and warrants	–		589
Issue costs	–		(4,320)
Balance, December 31, 2004	183,086,675		377,288
Issued on public offering (iii)	16,925,000		110,502
Issued on exercise of share purchase warrants	68,785		177
Issued on exercise of employee stock options	1,867,134		1,576
Issued on exercise of non-employee stock options (iv)	900,000		518
Transfer from contributed surplus on exercise of stock options and warrants	–		525
Issue costs	–		(5,892)
Balance, December 31, 2005	202,847,594	$	484,694

(i) In October 2004, the Company issued 10,150,000 common shares to acquire an overriding five percent net profits interest that previously encumbered Blocks 405b and 406a.

(ii) In December 2004, the Company issued 6,000,000 common shares for gross proceeds of $74.2 million (4,637,192 common shares at £6.50 per share and 1,362,808 common shares at C$14.46 per share). The issue costs were $4.2 million.

(iii) In June 2005, the Company issued 16,925,000 common shares for gross proceeds of $110.5 million (10,577,100 common shares at C$8.10 per share and 6,347,900 common shares at £3.59 per share). The issue costs were $5.9 million.

(iv) Relates to stock options granted to consultants in 2002. All options were exercised in 2005.

(c) Employee stock options:

The Company has 10,309,096 common shares reserved for issuance pursuant to its Stock Option Plan. Stock options granted under the plan have a term of five years and vesting terms are at the discretion of the Board. The exercise price of each option is equal to the closing market price of the shares on the date preceding the date of the grant.

The following table summarizes the changes in stock options outstanding:

	Number of Options	Weighted Average Exercise Price
Outstanding, December 31, 2003	9,018,401	C$ 2.47
Granted	880,000	9.83
Exercised	(2,035,565)	1.45
Cancelled	(233,335)	6.55
Outstanding, December 31, 2004	7,629,501	3.47
Granted	3,563,000	6.34
Exercised	(1,867,134)	1.01
Cancelled	(193,334)	10.03
Outstanding, December 31, 2005	9,132,033	C$ 4.95

The following table summarizes information about the options outstanding and exercisable at December 31, 2005:

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
C$0.50-0.82	902,700	0.84 years	C$ 0.66	902,700	C$ 0.66
C$1.25-1.25	505,000	1.42 years	1.25	505,000	1.25
C$2.36-2.95	900,000	2.09 years	2.60	900,000	2.60
C$4.72-4.72	2,497,333	2.83 years	4.72	2,497,333	4.72
C$6.21-6.39	3,378,000	4.91 years	6.27	1,109,333	6.27
C$7.45-8.59	610,000	3.77 years	7.68	383,333	7.65
C$10.95-15.77	339,000	3.51 years	11.72	224,000	11.43
	9,132,033	3.34 years	C$ 4.95	6,521,699	C$ 4.26

(d) Common share purchase warrants:

The following table summarizes the changes in common share purchase warrants outstanding:

	Number of Warrants	Weighted Average Exercise Price
Outstanding, December 31, 2003	1,913,209	C$ 4.70
Exercised	(1,844,424)	4.76
Outstanding, December 31, 2004	68,785	3.15
Exercised	(68,785)	3.15
Outstanding, December 31, 2005	–	C$ –

(e) Stock-based compensation expense:

For the year ended December 31, 2005, the Company recorded $5.5 million (2004 – $5.2 million) as stock-based compensation expense with a corresponding increase in contributed surplus. The fair value of the options granted in 2005 was estimated to be C$2.98 (2004 – C$5.34) per option and was determined using the Black-Scholes option pricing model with the following assumptions: expected volatility of 67 percent (2004 – 81 percent), risk-free interest rate of 3.7 percent (2004 – 3.7 percent) and expected lives of 3 years (2004 – 3 years).

(f) Contributed surplus:

The changes in contributed surplus balance are as follows:

		2005		2004
Balance, beginning of year	$	**9,441**	$	4,849
Options granted		**5,514**		5,181
Options and warrants exercised		**(525)**		(589)
Balance, end of year	$	**14,430**	$	9,441

(g) Per share amounts:

The loss per share is based on the weighted average shares outstanding for the year. The weighted average shares outstanding for 2005 were 192,873,482 (2004 – 167,749,193).

8. INCOME TAXES:

Income tax expense differs from the amount that would be computed by applying the Canadian federal and provincial statutory income tax rates to the loss for the year as follows:

		2005		2004
Loss for the year	$	**(7,571)**	$	(6,565)
Statutory tax rate		**37.6%**		38.6%
Expected income tax recovery at statutory rate		**(2,848)**		(2,534)
Increase (decrease) resulting from:				
Non-deductible stock-based compensation expenses		**2,074**		2,000
Increase in valuation allowance		**1,263**		498
Other		**(489)**		36
	$	**–**	$	–

The components of the future income tax asset at December 31 are summarized below:

		2005		2004
Operating losses	$	**5,362**	$	4,115
Property, plant and equipment		**3,341**		3,211
Share issue costs		**5,236**		3,255
		13,939		10,581
Less: valuation allowance		**(13,939)**		(10,581)
	$	**–**	$	–

The operating losses expire over the following years:

	$
2006	425
2007	340
2008	880
2009	1,090
Thereafter to 2015	13,215

9. FINANCIAL INSTRUMENTS:

The Company is exposed to foreign currency fluctuations as it holds Canadian dollar and British pound cash and short-term deposits and accounts payable. In addition, a portion of the Company's costs are incurred in Canadian dollars. There are no exchange rate contracts in place.

The fair value of the Company's financial instruments, including cash and short-term deposits, accounts receivable and accounts payable and accrued liabilities approximate their carrying values due to their short terms to maturity.

10. LEASES AND OTHER COMMITMENTS:

The Company is committed to office and equipment leases over the next five years as follows:

	$
2006	421
2007	262
2008	40
2009	19

In addition, as part of its Algerian operations, the Company has minimum contractual commitments for drilling rigs and consulting services totaling $11.7 million in 2006 and $2.3 million in 2007.

11. SEGMENTED INFORMATION:

The Company's activities are conducted in two geographic segments: Canada and Algeria. All activities relate to exploration and development of petroleum and natural gas in Algeria.

2005	Canada	Algeria	Total
Revenue	**$ 3,013**	**$ –**	**$ 3,013**
Expenses	**10,584**	**–**	**10,584**
Loss for the year	**$ (7,571)**	**$ –**	**$ (7,571)**
Capital expenditures	**$ 35**	**$ 64,075**	**$ 64,110**
Assets	**$ 108,732**	**$ 374,044**	**$ 482,776**

2004	Canada	Algeria	Total
Revenue	$ 1,290	$ –	$ 1,290
Expenses	7,855	–	7,855
Loss for the year	$ (6,565)	$ –	$ (6,565)
Capital expenditures	$ 67	$ 241,142	$ 241,209
Assets	$ 81,991	$ 311,051	$ 393,042

Capital expenditures in 2004 include the non-cash acquisitions of the overriding five percent net profits interest of $132.6 million.

12. CONTINGENCY:

The Company has received a notification of a potential claim from a third party referring to a consultancy agreement and purporting to be entitled to a remuneration of 2.5 percent of the general revenue generated by the Company's Algerian oil fields, as a net profits interest and $250 thousand of fees payable. FCP disputes the validity of this potential claim.

CORPORATE INFORMATION

Senior Management

Richard G. Anderson
President & Chief Executive Officer

Martin G.J. Layzell
Senior Vice President & Algeria Country Manager

John van der Welle
Vice President, Finance & Chief Financial Officer

Shane O'Leary
Chief Operating Officer

J. Garry Worth
Vice President, Business Development

Roger D. Whittaker
Vice President, Exploration

Erik A. Naglis
Development Engineering Manager

Directors

Raymond P. Antony,
Chairman of the Board
Chartered Accountant

Richard G. Anderson
President & Chief Executive Officer

Alastair J. Beardsall
Oil and Gas Consultant

Darryl J. Raymaker, Q.C.
Barrister and Solicitor

Yuri K. Shafranik
Independent Businessman

John van der Welle
Vice President, Finance & Chief Financial Officer

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EURL FCP Algerie OPCO

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Bank

Royal Bank of Canada
Calgary, Alberta

Legal Counsel

Burnet, Duckworth & Palmer LLP
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SJ Berwin
London, United Kingdom

Gide Loyrette Nouel
Algiers, Algeria

Registrar and Transfer Agent

Inquiries regarding change of address, registered shareholdings, stock transfers or lost certificates should be directed to:

Computershare Trust Company of Canada
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9th Floor
Toronto, Ontario, Canada M5J 2Y1
Attn: Stock Transfer Department
tel: 1-800-564-6253
fax: 1-888-453-0330
email: service@computershare.com
website: www.computershare.com

Stock Exchange Listings

Toronto Stock Exchange – Symbol: FCP
London Stock Exchange – Symbol: FPL

Abbreviations

2P	proved plus probable
3D	three dimensional
3P	proved plus probable plus possible
AIF	Annual Information Form
Bbls	barrels
Bbls/d	barrels per day
Bcf	billion cubic feet
Bcfe	billion cubic feet of gas equivalent (6 Mcf/Bbl conversion)
Boe/d	barrels of oil equivalent per day
EPC	engineering, procurement and construction
FEED	front end engineering and design
JVA	Joint Venture Agreement
km	kilometres
km^2	square kilometres
LPG	liquified petroleum gas
Mcf	thousand cubic feet of gas
Mcf/d	thousand cubic feet of gas per day
MMBbls	millions of barrels
MMcf	million cubic feet of gas
MMcf/d	million cubic feet of gas per day
PSC	Production Sharing Contract
Tcfe	trillion cubic feet of gas equivalent

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FCP

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ADDENDUMS TO THE ANNUAL REPORT OF FIRST CALGARY PETROLEUMS LTD.

On March 27, 2006, the Company announced that it had entered into an agreement to issue up to 22.2 million common shares requiring the following amendments to the annual report.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The MD&A is updated to be as of March 27, 2006 and includes the following additional information.

Subsequent Event

On March 27, 2006 the Company entered into an agreement with Canaccord Adams Limited pursuant to which Canaccord has agreed to purchase for resale to the public, on a bought deal basis, 15,670,000 common shares at a price of C$9.00 (approximately £4.45) per common share for aggregate gross proceeds of C$141,030,000 (approximately £69,731,500). In addition, the agreement includes an underwriter's option and an over-allotment option.

The underwriter's option provides Canaccord an option to purchase an additional 3,670,000 common shares, which if fully exercised, would raise an additional C$33,030,000 (approximately £16,331,500). The over-allotment option entitles Canaccord to purchase an additional 15 percent of the common shares offered in the bought deal, including the underwriter's option (up to 2,901,000 common shares). The over-allotment option is exercisable, at the sole discretion of Canaccord for a period of 45 days from closing.

The agreement is subject to certain conditions including regulatory approvals, and is expected to close on or about April 18, 2006.

MANAGEMENT'S REPORT

The date of the management's report to the shareholders is revised to be March 27, 2006.

AUDITORS' REPORT

The date of the auditors' report to the shareholders is revised to be March 14, 2006 (except as to note 13, which is as of March 27, 2006).

FINANCIAL STATEMENTS

The following note is added to the notes to the consolidated financial statements in the annual report.

13. Subsequent Event:

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